Duopharma Biotech (DBB MK)

Earnings Resilience Amid Noise

	BUY (Maintained)
Share Price	RM1.23
Target Price	RM1.62
Upside	29.6%

Highlights

- MoH's new three-year human insulin contract is imminent, while the RM65.1m bridging contract largely supports 2Q26 before normalisation.
- Supply chain is largely intact despite geopolitical uncertainties. Costs have risen but are highly manageable, further supported by healthy inventory levels.
- Maintain BUY and target price of RM1.62. Duopharma offers highly visible defensive earnings and bargain valuations.

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Analysis

- **Margins offset insulin sales normalisation.** To recap, 1Q26 revenue declined 5.7% yoy to RM248m, primarily due to the exceptionally high insulin sales recorded in 1Q25 when Duopharma Biotech (Duopharma) benefitted from being the sole supplier of human insulin following a competitor's exit from the market. Excluding this effect, sales growth was approximately 3.8% yoy. Meanwhile, 1Q26 gross margins gained 3.7ppt yoy to 39.3%. It was supported by a favourable product mix, operational efficiency improvements and a stronger ringgit. Earnings grew 19.8% yoy despite revenue contracting.
- **Human insulin contract award imminent.** Management guided that Ministry of Health (MoH) is expected to finalise the new three-year human insulin contract shortly. The company disclosed that 90-95% of the RM65.1m bridging contract awarded in Feb 26 has already been delivered and recognised. The awarded volume represented roughly six months of supply, thereby sustaining 2Q26's revenue run rate and possibly moderating in 2H26. Management further noted that the new contract value is expected to normalise closer to pre-2025 levels, implying that the recent contract value (RM65.1m) should not be extrapolated to the year. Recall that its previous human insulin contract was valued at RM375m over three years, expired in Apr 25.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	814	932	976	1030	1086
EBITDA	146	179	198	205	213
Operating profit	101	134	150	158	165
Net profit (rep./act.)	63	87	102	111	118
Net profit (adj.)	63	87	102	111	118
EPS	6.5	9.1	10.6	11.6	12.3
PE	20.0	14.3	12.2	11.2	10.6
P/B	1.7	1.6	1.7	1.3	1.6
EV/EBITDA	10.0	7.8	12.2	5.5	7.8
Dividend yield	2.4	3.6	4.3	4.6	4.9
Net margin	7.7	9.4	10.5	10.8	10.9
Net debt/(cash) to equity	35.0	26.7	40.2	35.0	26.7
Interest cover	7.1	9.5	7.9	15.5	9.5
ROE	10.1	13.6	8.7	16.3	13.6
Consensus net profit	-	-	103	108	112
UOBKH/Consensus (x)	-	-	0.99	1.03	1.06

Source: Duopharma Biotech, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Healthcare
Bloomberg ticker	DBB MK
Shares issued (m)	961.9
Market cap (RMm)	1,308.2
Market cap (US$m)	309.9
3-mth avg daily t'over (US$m)	0.2

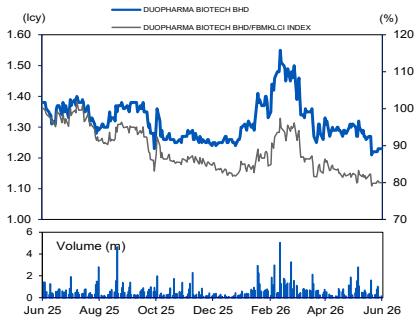
Price Performance (%)

52-week high/low	RM1.55/RM1.11			
1mth	3mth	6mth	1yr	YTD
(13.1)	1.4	(4.6)	5.0	1.6

Major Shareholders

	%
PNB	50.9
EPF	9.0

Price Chart



Source: Bloomberg

Company Description

Duopharma is the leading pharmaceutical producer in Malaysia.

- **Potential APPL extension during potential election.** Management highlighted the possibility that the current approved products purchase list (APPL) contracts may be extended by 6-12 months beyond its Dec 26 expiry, noting the lack of formal renewal discussions with MoH thus far. Management noted that if a general election were to occur in late-26 or early-27, procurement and budget processes could face delays, making an extension of the existing APPL contracts a more likely outcome. While this could postpone the rollout of a new APPL contracts, it would provide continuity of supply. Duopharma's current three-year APPL contracts, valued at approximately RM684m, are due to expire in Dec 26.
- **Supply chain remains manageable despite Middle East-related disruptions.** Management acknowledged that geopolitical tensions have resulted in higher active pharmaceutical ingredient (API), packaging, shipping and insurance costs, with API prices from India increasing by 5-15%. Nevertheless, Duopharma has not experienced material supply disruptions, with availability of raw materials remaining intact. To mitigate potential risks, the group has expanded inventory coverage for key APIs and packaging materials from 3-4 months previously to 5-6 months, while actively qualifying second and third source suppliers.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM1.62.** We continue to like Duopharma for its defensive and domestically-driven growth and as a forex tailwind beneficiary. Our PE peg of 15.3x is based on Duopharma's -0.5SD to its seven-year average mean PE, a switch from 14.7x based on the company's pre-pandemic mean. As valuations have normalised since the pandemic, we have opted for valuations to reflect a full business cycle.

Earnings Revision/Risk

- **No changes to earnings.** Key risks include single customer concentration (50% of Duopharma's sales are from the government) and the strengthening of the US dollar.

Share Price Catalyst

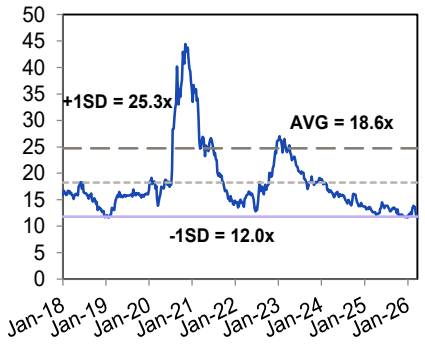
- **Net beneficiary of ringgit strength.** Duopharma has left its net US dollar exposure unhedged for this year. Net of its export sales, which act as a natural hedge, the company's 2026 earnings sensitivity to US$/RM is +0.3% for every 1.0% depreciation in the US dollar, based on our estimates. We have assumed a forex rate of US$3.90/RM for 2026 vs the 2025 average of US$4.28/RM.

Assumptions

	2025F	2026F	2027F
Revenue (RMm)	976	1030	1086
Local gov. (RMm)	477	492	507
% of revenue	49%	48%	47%
Local private (RMm)	451	482	516
% of revenue	46%	47%	48%
Export (RMm)	48	55	62
% of revenue	7%	5%	6%
	2025F	2026F	2027F
PAT (RMm)	102	111	118
Growth yoy (%)	16.5%	8.4%	6.5%
3-yr CAGR (%)	19.2%	20.8%	10.4%
Gross profit margin (%)	39.8%	41.1%	41.1%
PAT margin (%)	10.4%	10.7%	10.8%

Source: UOB Kay Hian

Seven-Year Forward PE Band



Source: Bloomberg, UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental

- Material management. Duopharma aims to replace 50% of single-use plastics throughout its operations with biodegradable plastics by 2026. Duopharma also aims to be carbon neutral by 2030 and achieve net zero carbon emissions by 2050.

Social

- Diversity and inclusion. Women made up 47.6% of its total workforce as at end-22, as compared with 47.2% at end-21.

Governance

- Board balance and composition. 60% of its board members are independent directors.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	932	976	1030	1086
EBITDA	179	198	205	213
Deprec. & amort.	46	48	47	48
EBIT	134	150	158	165
Total other non-operating income	0	1	1	1
Associate contributions	0	0	0	0
Net interest income/(expense)	-19	-19	-16	-14
Pre-tax profit	115	131	142	151
Tax	-27	-28	-31	-33
Net profit	87	102	111	118
Net profit (adj.)	87	102	111	118

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	554	536	519	501
Other LT assets	75	70	70	70
Cash/ST investment	291	376	406	460
Other current assets	529	497	524	553
Total assets	1448	1479	1520	1585
ST debt	147	137	132	127
Other current liabilities	167	177	186	197
LT debt	345	325	305	305
Other LT liabilities	31	31	31	31
Shareholders' equity	758	809	864	923
Total liabilities & equity	1448	1479	1520	1585

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	107	191	134	140
Pre-tax profit	115	131	142	151
Tax	-27	-28	-31	-33
Deprec. & amort.	-46	-48	-47	-48
Associates	0	0	0	0
Working capital changes	-57	46	-17	-18
Other operating cashflows	21	-5	-6	-8
Investing	-27	-25	-24	-22
Capex (growth)	-27	-30	-30	-30
Proceeds from sale of assets	0	0	0	0
Others	0	5	6	8
Financing	-54	-81	-81	-64
Dividend payments	-34	-51	-56	-59
Issue of shares	0	0	0	0
Proceeds from borrowings	58	0	0	0
Loan repayment	-78	-20	-20	0
Others/interest paid	-1	-10	-5	-5
Net cash inflow (outflow)	25	85	30	54
Beginning cash & cash equivalent	265	291	376	406
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	291	376	406	460

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	19.3	20.3	19.9	19.6
Pre-tax margin	12.3	13.4	13.8	13.9
Net margin	9.4	10.5	10.8	10.9
ROA	6.0	6.9	7.3	7.5
ROE	11.6	12.9	13.1	13.0
Growth				
Turnover				
EBITDA	14.5	4.7	5.5	5.4
Pre-tax profit	22.8	10.4	3.5	3.8
Net profit	43.6	13.9	8.6	6.2
Net profit (adj.)	39.6	17.1	8.6	6.2
EPS	39.6	17.1	8.6	6.2
Leverage	39.6	17.1	8.6	6.2
Debt to total capital				
Debt to equity				
Net debt/(cash) to equity	34.0	31.3	28.8	27.3
Interest cover	65.1	57.2	50.7	46.9

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